ONTARIO POWER GENERATION

**OPG Confidential Exclusive**

**FOR INFORMATION to the Audit & Risk Committee**

---

**May 15, 2018**

# FAIR HYDRO PLAN UPDATE

## REASON FOR REPORT

The purpose of this submission is to provide an update to the Audit & Risk Committee (ARC) on the Fair Hydro Trust's (FHT or the Trust) financing activities and OPG's fees as Financial Services Manager filed with the Ontario Energy Board (OEB) to-date.

## CONCLUSIONS

This report is for information purposes of the ARC only.

## HIGHLIGHTS

<u>FHT's financing activities</u>

In April 2018, the Trust issued its second tranche of senior notes in the amount $400 million. Redacted - Commercially Sensitive

**Redacted - Commercially Sensitive**

Based on the term debt issuances to-date, OPG secured two of the lowest structured financing costs in the Canadian energy sector. Management estimates lower interest costs to ratepayers of about $250 million over the ~17-year average term of the debt issuances.

Refer to Appendix 1 for a summary of FHT's April 2018 senior term debt issuance. OPG expects the Trust to issue its third tranche of senior debt during the third or fourth quarter of 2018.

<u>OPG's application for fees</u>

OPG as Financial Services Manager is entitled to charge the Trust a management fee and to recover costs and expenses incurred by OPG on behalf of the Trust in relation to the establishment, management and administration of the Trust and its Investment Interest without margin.

*2017 Management Fee*

In February 2018, OPG submitted its proposed 2017 general fees to the OEB in the amount of $5.7 million. Pursuant to the general regulation of the *Ontario Fair Hydro Plan Act, 2017* (the Act), OPG's general fee for 2017 consists of $3.1 million plus recovery of all third party and certain direct costs incurred by OPG between June 1, 2017 and December 31, 2017 on behalf of the Trust, which totalled $2.6 million. The recoverable costs are inclusive of direct costs of four OPG employees who were dedicated exclusively to the Trust during 2017. OPG requested a written hearing for the application as the amount represents an immaterial financial impact to customers and the evidence is accompanied by written confirmation of the amounts included in the application from Ernst & Young, pursuant to the requirements of the general regulation of the Act.

*2018 & Q1 2019 Management Fee*

In February 2018, OPG supplemented its December 2017 application to the OEB to provide benchmark interest rates for the January 1, 2018 to March 31, 2019 period. The proposed benchmark rates will be used to determine the variable component of OPG's fee, calculated as 10 percent of the difference between the forecast and actual rates multiplied by the amount of the senior debt issued. The benchmark rates were based on a forecast of long-Canada bond rates, a forecast risk premium for Ontario long-term interest rates, and a risk premium for FHT. The variable fee is forecast to be +/- $2.25 million for the period. In addition to the variable fee, OPG is allowed to earn an annual base fee equal to 7.5 basis points multiplied by the average debt outstanding, which is forecast to be $2.75 million. The sum of the two components is in the range of $0.5 million to $5 million for the period. Given the formulaic nature of determining the general fee for this period and the immaterial financial impact to customers, OPG requested that the OEB proceed without a hearing.

OPG's 2017 and 2018-March 2019 management fee applications are currently ongoing.

**Submitted by:**

Ken Hartwick
Chief Financial Officer & Senior Vice President – Finance

## APPENDICES

1. Summary of Fair Hydro Trust April 2018 Senior Term Debt Offering

## APPENDIX 1
## SUMMARY OF FAIR HYDRO TRUST APRIL 2018 SENIOR TERM DEBT OFFERING

**Fair Hydro Trust**
**C$400,000,000**
**20-year term**
Senior Notes – Series 2018-2

**Transaction Summary**

| | |
|---|---|
| **Issuer:** | Fair Hydro Trust |
| **Settlement Date:** | 24-Apr-18 |
| **Ratings:** | DBRS: AAA(sf)<br>Moody's: Aa2(sf) |
| **Amount:** | $400,000,000 |
| **Redacted - Commercially Sensitive** | |
| **Expected Maturity Date:** | May 15, 2038 |

**Redacted - Commercially Sensitive**

**Redacted - Commercially Sensitive**